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United Nations

United Nations Office for Project Services

Financial report and audited financial statements

for the biennium ended 31 December 1995 and Report of the Board of Auditors

General Assembly
Official Records • Fifty-first Session
Supplement No. 5J (A/51/5/Add.10)

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LETTERS OF TRANSMITTAL AND CERTIFICATION

21 June 1996

Sir,

Pursuant to financial regulation 11.3, we have the honour to submit the financial statements of the United Nations Office for Project Services (UNOPS) for the year ended 31 December 1995, which we hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

We, the undersigned, acknowledge that:

- The Management is responsible for the integrity and objectivity of the financial information included in this report;

- The financial statements have been prepared in accordance with the United Nations System Accounting Standards and include certain amounts that are based on Management's best estimates and judgements;

- Established accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions, and the policies and procedures are implemented by qualified personnel with an appropriate segregation of duties. UNOPS internal auditors continually review the accounting and control systems;

- The Management provided the United Nations Board of Auditors and UNOPS internal auditors with full and free access to all accounting and financial records;

- The recommendations of the United Nations Board of Auditors and UNOPS internal auditors are reviewed by the Management. Control procedures have been implemented or revised, as appropriate, in response to these recommendations.

We each certify that, to the best of our knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements.

Accept, Sir, the assurances of our highest consideration.

(Signed) Reinhart HELMKE
Executive Director
United Nations Office for
Project Services

(Signed) Nestor MARMANILLO
Assistant Director
Division for Finance
and Administration

The Chairman of the Board of Auditors
United Nations
New York

31 July 1996

Sir,

I have the honour to transmit to you the financial statements of the United Nations Office for Project Services for the year ended 31 December 1995, which were submitted by the Executive Director. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

Accept, Sir, the assurances of my highest consideration.

(Signed) Osei Tutu PREMPEH
Auditor General of Ghana
and Chairman
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

I. FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 1995

1. The Executive Director has the honour to submit his financial report for the year ended 31 December 1995, together with the audited financial statements of the United Nations Office for Project Services (UNOPS) for the year ended 31 December 1995 and the report of the Board of Auditors. This submission is made in conformity with the Financial Regulations of UNOPS. The financial statements consist of two statements and three schedules, accompanied by notes which are an integral part of the financial statements, and cover all funds for which the Executive Director is responsible.

Brief history of UNOPS

2. Until 31 December 1994, the Office for Project Services (OPS) was part of the United Nations Development Programme (UNDP). As such, OPS financial activities for periods up to 31 December 1994 were reported by UNDP.

3. On 9 June 1994, in its decision 94/12, the Executive Board of UNDP recognized the need for a self-financing Office for Project Services and recommended to the General Assembly that OPS should become a separate and identifiable entity in a form that did not create a new agency.

4. Following the above recommendation, the General Assembly, in its decision 48/501 of 19 September 1994, decided that the United Nations Office for Project Services (UNOPS) should become a separate and identifiable entity. Subsequently and as authorized by the Executive Board in its decision 94/32 of 10 October 1994, UNOPS became operational, as a self-financing entity within the United Nations development system, on 1 January 1995.

5. On 10 January 1995, in its decision 95/1, the Executive Board approved the UNOPS Financial Regulations as contained in document DP/1995/7/Add.1 as an annex to the Financial Regulations and Rules of UNDP. In conformity with its Financial Regulations, UNOPS maintains separate accounting and other financial records for:

(a) The UNOPS account, to which all of the income to UNOPS derived from its services are credited and against which all operational costs of UNOPS are charged;

(b) Separate special accounts, as required by UNOPS activities, for identification, administration and management of resources entrusted to the charge of UNOPS by a funding source.

Accounting practices and policies

Financial Regulations and Rules

6. As indicated above, UNOPS was established effective 1 January 1995; consequently, these are the first financial statements for UNOPS. They have been prepared in accordance with the UNOPS Financial Regulations and UNDP Financial Rules, which are applicable to UNOPS *mutatis mutandis*.

Presentation of financial statements

7. The financial statements have been prepared in accordance with common accounting standards for the United Nations system, with due consideration given to the fact that UNOPS is self-financed; i.e., its administrative expenditures are financed entirely by the income it earns.

8. Having been established effective 1 January 1995, UNOPS had neither assets nor liabilities in 1994. For this reason, a statement of changes in financial position could not be prepared and comparative figures for 1994 in the statement of assets and liabilities could not be provided. This information will be provided in all future financial statements. However, comparative figures for the year 1994 are provided in the statement of income and expenditure and related schedules because the revised budget estimates for UNOPS, which were approved by the Executive Board in its decision 95/31, cover the 1994-1995 biennium.

Accounting policies

9. A summary of significant accounting policies applied in the preparation of the financial statements is provided in note 1 to the financial statements. The policies are consistent with those that OPS applied in prior years when it was part of UNDP.

UNOPS account

10. As shown in statement I, in the year ended 31 December 1995 UNOPS income from all sources totalled $30,425,868 and its administrative expenditures reached $27,688,064. Therefore, in 1995 income exceeded administrative expenditures by $2,737,804. Comparative figures for 1994 were as follows: income and administrative expenditures reached totals of $28,943,091 and $27,926,628 respectively; therefore, the excess of income over expenditure was $1,016,463. Combined figures for the 1994-1995 biennium reveal total earnings of $59,368,959 and total administrative expenditures of $55,614,692. Therefore, during the biennium total income exceeded total expenditures by $3,754,267.

UNOPS income

11. Total income earned in 1995, of $30,425,868, was derived from the following sources: $26,623,431, or 88 per cent of the total, from project implementation services; $3,068,710, or 10 per cent of the total from services provided to the International Fund for Agricultural Development (IFAD); $683,727, or 2 per cent of the total, from interest income; and $50,000 from accounting fees charged to the Programme of Assistance to the Palestinian People.

12. Compared with 1994 income of $28,943,091, UNOPS income in 1995 increased by $1,482,777. A significant portion of this increase is attributed to the interest income of $683,727 that UNOPS earned, for the first time, on its accumulated unspent income. In the past, this income accrued to the parent organization of OPS, UNDP.

(a) Income from project implementation

13. The sources of income related to project implementation ($26,623,431) are provided in schedule 1 of the financial statements. This is the total of support costs and management fees that UNOPS earned in 1995, and was derived

from: $12,892,460, or 48 per cent of the total, from UNDP-funded projects; $1,415,313, or 5 per cent of the total, from services that UNOPS provided as either cooperating or associated agency; $1,234,768, or 5 per cent of the total, from projects funded by the United Nations International Drug Control Programme (UNDCP); $5,251,227, or 20 per cent of the total, from projects financed by UNDP-administered trust funds; and $5,829,663, or 22 per cent of the total, from management fees for projects funded under the modality of Management Service Agreements.

(b) Income from the loan administration and project supervision of IFAD

14. In 1995 UNOPS earned a total of $3,068,710 as compensation for services related to IFAD: $2,979,896 for IFAD loan administration and supervision of projects; and $88,814 as support costs for services provided to government-executed projects, financed with IFAD loans.

15. Services to IFAD are provided on the basis of a cooperation agreement that UNOPS signed with IFAD on 20 September 1995. Prior to that date, the services were provided under a similar agreement signed between UNDP and IFAD. As per the agreement, UNOPS is a cooperating institution of IFAD and as such is responsible for the supervision of the implementation of IFAD projects and the administration of the associated loans. As a loan administrator UNOPS reviews and approves the withdrawal applications submitted by Governments to draw funds from the loan account maintained by IFAD; as a supervisor of the implementation of IFAD projects, UNOPS undertakes project supervision missions to assess the status of project implementation, identify operational problems and propose corrective actions to be taken. As at 31 December 1995, UNOPS supervised a total of 93 projects and administered a loan portfolio of $1,291 million.

16. Following UNOPS authorization, IFAD paid in 1995 a total of $106.6 million in loan proceeds to Governments. IFAD loan disbursements do not pass through UNDP or UNOPS accounts; i.e., they are paid directly to the loan recipient Governments and, therefore, they do not form part of UNOPS delivery.

(c) Other income

17. During 1995, UNOPS also earned the following other income: $683,727 interest on the investment of its accumulated unspent income, including its Operational Reserve; and $50,000 for accounting services rendered to the Programme of Assistance to the Palestinian People. In 1994 OPS earned only the $50,000 from PAPP; interest income did not accrue to OPS but to its parent organization, UNDP.

UNOPS administrative budget and expenditure

18. At its third regular session, on 15 September 1995, the Executive Board, in its decision 95/31, approved the UNOPS revised budget estimates for the 1994-1995 biennium, in the amount of $58,439,000. As shown in statement I and explained further in schedule 2 of the financial statements, UNOPS incurred administrative expenditures totalling $55,615,000: $27,927,000 in 1994 and $27,688,000 in 1995, leaving an unencumbered balance of $2,824,000.

19. The budget estimates approved by the Executive Board are not appropriations, nor does UNOPS take such approved budget as authorizations to spend. The budgets approved by the Executive Board represent the best estimates of expenditures to be incurred; actual expenditures are incurred only when sufficient income is projected to be available at the end of the year.

Operational reserve

20. As decided by the Executive Board, the operational reserve was established with an initial level of $6.8 million. The level is to be revised by the *Executive Board based on recommendations to be submitted by the Executive* Director. None of the funds of the operational reserve were utilized in 1995.

Ex gratia payments and write-offs of cash and receivables

21. No ex gratia payments were made and neither cash nor receivables were written off in 1995.

Special accounts

22. As required by its Financial Regulations, UNOPS maintains separate special accounts for identification, administration and management of resources entrusted to its charge; i.e., to account for project budgets (UNOPS portfolio) entrusted to UNOPS for implementation; project expenditures (project delivery); and support costs and management fees earned (UNOPS income) from the implementation of such projects.

UNOPS portfolio

23. The UNOPS portfolio consists of all the projects accepted by UNOPS for implementation and the total value of their budgets. The value of the UNOPS portfolio changes constantly as new projects are accepted for implementation and budgets of existing projects are revised to either reflect the actual yearly expenditures (mandatory revision) or to bring the budgets to realistic levels as dictated by ever-changing circumstances.

24. The project budgets are recorded, by year and funding source, in the UNOPS Funds Control System. For purposes of identification and ease of reporting, the value of project budgets are summarized below as being funded by UNDP, or by Management Service Agreements, or by others (United Nations Drug Control Programme and trust funds).

25. As at 31 March 1996, the UNOPS portfolio consisted of:

Table 1. UNOPS portfolio

(Thousands of United States dollars)

Source of fund	1995	1996	1997	Future years	Total portfolio	Per cent of total
UNDP	219 153	155 958	32 809	12 827	420 747	35.3
Others (United Nations Drug Control Programme and trust funds)	160 418	90 613	18 791	8 872	278 694	23.4
Management Service Agreement	197 615	204 441	41 569	49 199	492 824	41.3
Total	577 186 a/	451 012	93 169	70 898	1 192 265	100.0

a/ Before "mandatory revisions" were processed to reflect 1995 actual expenditures.

26. As shown above, at 41.3 per cent of the total, budgets of projects financed under the Management Service Agreement modality now represent the majority of the UNOPS portfolio; UNDP-financed projects are in second place while those financed by trust funds are in third place. This is a very important trend and it seems that it will continue in the foreseeable future. With UNDP showing gradual and significant yearly increases on expenditures under nationally executed projects, it is expected that this funding source for UNOPS may decrease even further as a percentage of total portfolio. The gradual decrease of UNDP-financed projects in the UNOPS portfolio has been offset by increases in budgets of projects financed by trust funds and projects financed under the Management Service Agreement modality.

Project expenditures (UNOPS delivery)

27. In the year ended 31 December 1995, UNOPS incurred project expenditures (net of support costs and management fees) totalling $382,924,263. Compared with 1994, when project expenditures totalled $385,787,194, UNOPS delivery in 1995 was $2,862,931 lower. However, it must be noted that 33 purchase orders for Management Service Agreement projects funded by the Government of Japan, for a total of $21,834,428, were issued in the first week of January 1996. Had these purchase orders been issued on or before 31 December 1995, when all the necessary work leading to their issuance (tender, evaluation, submission to the Procurement Review Advisory Committee, approval by the Chief, Procurement Officer, etc.) had been completed, total project expenditures for the year ended 31 December 1995 would have been $404,758,691, or $18,971,497 more than in 1994.

Projections of UNOPS portfolio, administrative expenditures and income

28. In document DP/1995/60, entitled "Revised budget estimates for the biennium 1994-1995 and budget estimates for the biennium 1996-1997", the Executive Director reported to the Executive Board that the value of OPS portfolio at the end of the years 1993 and 1994 had reached approximately $1 billion and that, in his opinion, OPS had reached a plateau. The Executive Director further stated that he did not expect significant growth in the foreseeable future; i.e., he expected the UNOPS portfolio at the end of the years 1995, 1996 and 1997 to reach also approximately $1 billion, with approximately 60 per cent of that total being budgeted for the current year.

29. The information provided in table 1 confirms the Executive Director's projections for the year 1995. Again, based on the same information, the current portfolio for 1996 is as follows:

	Thousands of United States dollars
Total 1995 budgets (before mandatory revisions)	577 186
Deduct: Project delivery - 1995 (as per schedule 1 of the Financial Statements)	(382 924)
Unspent budgets - 1995 (to be rephased to 1996 and 1997)	194 262
Total 1996 budgets (already accepted and recorded in the Funds Control System)	451 012
Add: 80 per cent of unspent 1995 budgets (194,262 x 0.80) a/	155 410
Total 1996 budgets already available as at 31/03/96:	606 422

a/ Based on past years' experience, approximately 80 per cent of the unspent funds are "rephased" into the following year and 20 per cent to the year after.

30. As can be seen above, sufficient budgets are already available for 1996 to maintain UNOPS at its current level of activities. The budgets of projects already accepted plus those which are expected to be accepted by UNOPS for implementation from April 1996 to December 1997 (approximately $500 million) indicate that the projections made in document DP/1995/60 in support of the budget estimates for the current biennium are still valid.

II. REPORT OF THE BOARD OF AUDITORS

Introduction

1. The Board of Auditors has audited the financial statements of the United Nations Office for Project Services (UNOPS) for the period from 1 January to 31 December 1995, in accordance with General Assembly resolution 74 (I) of 7 December 1946, and article XII of the Financial Regulations of the United Nations Office for Project Services. The Board conducted its audit in conformity with article XII of the Financial Regulations and Rules of the United Nations and the annex thereto, and the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. UNOPS was established as an operational, self-financing entity from 1 January 1995. Therefore for this first reporting period UNOPS has prepared financial statements for one year ending 31 December 1995. The results of the UNOPS operations for 1994 are reported as part of the financial statements of the United Nations Development Programme (UNDP).

Audit objectives and approach

3. The Board's audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The Board based its examination on an assessment of UNOPS accounting systems and controls and a test audit in which all areas of the financial statements were subject to direct substantive testing of transactions. The audit also included an assessment of the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. The Board conducted its examinations at UNOPS headquarters in New York and considers that its audit approach provides a reasonable basis for its opinion. Whilst the financial statements are the responsibility of UNOPS management, the responsibility of the Board is to express an opinion whether, based on its audit, the financial statements present fairly the financial position of UNOPS as at 31 December 1995.

4. The Board's examination included a general review and such tests of the accounting records and other supporting evidence as it considered necessary in the circumstances. These audit procedures are designed primarily for the purpose of forming an opinion on the financial statements of UNOPS.

5. In addition to its audit of the accounts and financial transactions, the Board carried out reviews under article 12, paragraph 5, of the Financial Regulations of the United Nations. The reviews primarily concerned the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNOPS. The Board examined the following areas:

(a) Business planning and development;

(b) Appointment and management of consultancy services;

(c) Price setting and cost control.

6. A list of the Board's principal conclusions and recommendations is found in paragraphs 9 to 12. A summary of the main findings, arising from the Board's work, is reported in paragraphs 13 to 35. The detailed findings are reported in paragraphs 36 to 140.

Action taken on recommendations in previous reports to the General Assembly

7. As a result of its audit of the financial statements of UNDP for the biennium ended 31 December 1993, the Board made several recommendations that concerned the activities of the Office for Project Services (OPS), then part of UNDP. The Board has carried out a review of the measures taken by UNOPS in response to those recommendations, in accordance with the request of the General Assembly in its resolution 47/211 of 23 December 1992. Although UNOPS has responded positively to the Board's recommendations, it still needs to give attention to the use of its consultants' roster and documenting the selection of consultants, and to strengthening its Procurement Review and Advisory Committee through the appointment of external procurement specialists to the Committee. The details of the actions taken by UNOPS, together with the comments of the Board, are set out in the annex to the present report.

Overall results

8. The Board's examination revealed no weaknesses or errors considered material to the accuracy or completeness of the financial statements as a whole. In accordance with normal procedures, the Board recorded significant findings in management letters to UNOPS. None of these matters affected the Board's opinion on the UNOPS financial statements and schedules for the period.

Conclusions and recommendations

Financial matters

9. The Board identified three areas where there remained scope for improving financial control and the Board recommends that UNOPS:

(a) Report to the Executive Board on progress in finalizing its new, dedicated Financial Rules and indicate a timetable for presentation of the Rules to the Executive Board for approval (see para. 39);

(b) Issue further guidance to certifying officers to clarify that only those purchase orders or contracts signed and issued within the financial period represent valid obligations for that period (see para. 41);

(c) Closely monitor actual expenditure against budget to avoid the high incidence of overexpenditure (see para. 43).

Management issues

Business planning and development

10. The Board concluded that the initiative of UNOPS in developing an annual business plan was a significant step forward for the new organization. The

Board identified several areas, however, where there was scope for improving the business plans and recommends that UNOPS:

(a) Set realistic objectives in its business plans and consider the costs and benefits of undertaking the planned tasks (see para. 56);

(b) Assess the potential impact that the shifting composition of its portfolio could have on its financial position and set financial targets which reflect its differential income rates (see para. 59);

(c) In future business plans, prioritize tasks to ensure that they are implemented according to their respective importance to the organization (para. 61);

(d) Establish appropriate measures of success and benchmarks of current performance to assess the impact of its business plans on quality of service and client relations (see para. 67);

(e) Prepare an evaluation strategy (see para. 70).

Appointment and management of consultancy services

11. The Board concluded that UNOPS needed to improve its practices concerning the appointment and management of consultancy services. The Board recommends that UNOPS:

(a) Regularly review the extent of repeat recruitment to ensure that it exercises sufficient choice in the selection of individual consultants and consultancy firms (see para. 84);

(b) Undertake periodic analyses to identify the specialities most in demand and any shortfalls in supply, with a view to registering individuals and firms with the required skills in advance of possible assignments (see para. 88);

(c) Screen and, where appropriate, register on the consultants roster those candidates whose details are not yet on the roster; ensure that all staff are fully trained in the use of the roster; and investigate the scope for making the roster available to the UNOPS office in Kuala Lumpur (see para. 102);

(d) Undertake a review of current market rates for consultancy services, to be used as a benchmark for setting fees, and issue new guidelines to ensure that staff determine fees on a consistent and transparent basis (see para. 103).

Price setting and cost control

12. The Board concluded that UNOPS needed to strengthen and update its price setting and cost control measures. The Board recommends that UNOPS:

(a) Develop a workload assessment and costing system (see para. 119);

(b) Revise the bases for calculating Management Service Agreement fees to reflect current costs more accurately (see para. 123);

(c) Establish a formal agreement with UNDP that country offices provide UNOPS with a breakdown of their estimated costs in support of Management Service Agreement activities in the field (see para. 128);

(d) Assess and document, as part of the project acceptance process, whether the costs of delivering a project are likely to be met by the charges or fees set by or agreed with the relevant clients (see para. 131);

(e) Assess the levels of annual surpluses and accumulated unspent resources to determine levels which are reasonable and consistent with its business objectives (see para. 139).

Summary of findings

Financial matters

Financial Regulations and Rules

13. UNOPS continued to apply the UNDP Financial Rules, pending finalization of its own (see paras. 38 and 39).

Review of unliquidated obligations

14. Some certifying officers continued to misinterpret the criteria for raising obligations, despite clarification from the UNDP Division of Finance (see paras. 40 and 41).

Financial monitoring of projects

15. In 46 projects, UNOPS had exceeded the budget by more than $50,000 and in a further 24 projects expenditure had exceeded $5,000 without any approved budget (see paras. 42 and 43).

Management issues

Business planning and development

16. Scope of the business plan. The scope of the 1995 business plan was, from the outset, ambitious and this, together with other factors, diminished the chances of UNOPS of implementing the plan in full (see paras. 53 and 54).

17. UNOPS did not identify the level of resources required to implement the final plan. Nor did it consider the availability of such resources or assess whether the various tasks offered value for money to the organization (see paras. 55 and 56).

18. Financial targets. UNOPS set itself prudent financial targets for 1995. UNOPS did not, however, reflect the significance of different income rates in its business plan or in its financial targets (see paras. 57-59).

19. Implementation of the business plan. UNOPS did not prioritize the business plan tasks (see paras. 60 and 61).

20. Monitoring of the business plan. UNOPS omitted to report to the Management Coordination Committee progress in implementing some of the plan's key tasks (see para. 62).

21. Progress and achievements. Although by December 1995 UNOPS had progressed many of the business plan tasks, it had completed only 9 of the 57 tasks and had not started work on 22 tasks (see paras. 63-66).

22. Evaluation of achievements. Intermediate outputs, such as action plans and reports, did not provide a suitable basis for evaluating the impact of the business plan on the quality of UNOPS services or on client relations. UNOPS had not established benchmarks of current performance against which it could measure its success (see paras. 67 and 68).

23. UNOPS had not established an evaluation strategy to assess the impact of the business plan on the performance of UNOPS (see paras. 69-71).

Appointment and management of consultancy services

24. Extent of open competition. There was a significant number of repeat recruitments of individual consultants and consultancy firms during 1994 and 1995. In all cases examined, there was no evidence that OPS/UNOPS had identified and considered alternative candidates for individual consultants' assignments. However, there was clear evidence that alternatives had been identified and considered for all of the consultancy firms' contracts which the Board reviewed (see paras. 77-84).

25. Assessing demand for and supply of consultancy specialities. The consultants roster did not contain a coding system that would allow UNOPS to classify individual consultants according to their specialities. Moreover, UNOPS had not undertaken needs analyses to identify the types of consultancy specialities in demand (see paras. 85-88).

26. Screening of individual consultants. There were inadequacies in the screening of individual consultants for registration on the individual consultants' roster (see paras. 89-92).

27. Development of the firms' roster. There were shortcomings in the contract for the development of the new firms' roster, and in the management of the project, which have contributed to a significant delay in implementing the roster (see paras. 93-96).

28. Utilization of the individual consultants roster. The consultants roster was underutilized and, 18 months after its implementation, the roster had still not been institutionalized (see paras. 97-102).

29. Determination of fees. There was a need for more transparency on how to determine fees for consultancy assignments (see para. 103).

30. Evaluation of consultancy performance. In their consultancy evaluations, UNOPS did not focus on important issues concerning the consultant's performance and contribution to project achievements and did not evaluate the performance of consultants on a systematic basis. In addition, UNOPS had not established any evaluation procedures for consultancy firms (see paras. 104-107).

Price setting and cost control

31. Workload assessments and costing systems. There were deficiencies in the UNOPS workload assessment system. In addition, there was no clear link between workload and cost calculations and the fees and charges that UNOPS expected to earn for their services (see paras. 113-121).

32. Costs of Management Service Agreements. The basis for calculating the costs of Management Service Agreements needed updating. In addition, none of the reimbursements that UNOPS paid to UNDP country offices for services rendered

in the field was supported by a breakdown of the costs that the country offices expected to incur in providing such assistance (see paras. 122-129).

33. Financial scrutiny of project proposals. Project Acceptance Committee meetings did not routinely address the issue of whether income expected from projects would cover the costs of providing the services (see paras. 130-132).

34. Monitoring and controlling costs. In the absence of a time recording system, UNOPS cost control arrangements were limited to ensuring that total administrative costs were matched by total income. UNOPS could not clearly demonstrate that it recovered the full cost of providing each of its services through its fees and charges (see paras. 133-137).

35. The Board noted that a continued accumulation of unspent resources by UNOPS could be regarded as inconsistent with the position of UNOPS as a not-for-profit organization and with its objective of providing cost-effective, quality services (see paras. 138 and 139).

Part I: Financial statements

United Nations System Accounting Standards

36. In September 1995, the Consultative Committee on Administrative Questions, on behalf of the Administrative Committee on Coordination, adopted the revised United Nations System Accounting Standards, incorporating a harmonized presentation of financial statements. The Committee agreed that organizations should be encouraged to apply the Standards for financial periods ending in 1995.

37. The Board assessed the extent to which the UNOPS financial statements for the biennium 1994-1995 conformed to the Accounting Standards. The review indicated that UNOPS generally complied with the Standards.

Financial Regulations and Rules

38. In January 1995, the Executive Board approved the UNOPS Financial Regulations as set out in document DP/1995/7/Add.1. However, UNOPS has not yet finalized the associated Financial Rules and in the meantime is applying, mutatis mutandis, the Financial Rules of UNDP.

39. The Board is concerned that since becoming an independent entity on 1 January 1995, UNOPS has operated without its own new, dedicated and comprehensive Financial Rules. The Board recommends that UNOPS report to the Executive Board on their progress and indicate a timetable for presentation of the Rules to the Executive Board for approval.

Review of unliquidated obligations

40. The criteria used to determine whether an obligation remains valid at the period end are set out in the summary of significant accounting policies. Following the Board's review of unliquidated obligations recorded at the period end, UNOPS reclassified a number of high value obligations to the following financial period, to which they properly related. As a result of similar observations made by the Board in previous audits of OPS, the UNDP Division of

Finance clarified its guidance on the raising of obligations. Although this has generally resulted in a better understanding of the criteria for raising obligations, some certifying officers were still misinterpreting the guidance.

41. The Board therefore recommends that UNOPS issue further guidance to certifying officers to clarify that only those purchase orders or contracts signed and issued within the financial period represent valid obligations for that period.

Budgetary control of projects

42. The Board noted that, as at 31 December 1995, 46 projects executed by UNOPS had each exceeded their budget by more than $50,000. A further 24 projects had each incurred expenditures exceeding $5,000 without any approved budget for the year. In 5 cases, the overexpenditures were covered within the 20 per cent flexibility under the two-year rolling budget concept. UNOPS explained that the remaining 65 overexpenditures were a result of unforeseen or urgent expenditures.

43. In the Board's view, delivery of projects within budget is an important performance measure, particularly in times of financial constraints. The Board therefore recommends that UNOPS monitor closely actual expenditure against budget to avoid the current high incidence of overexpenditure.

Write-off of losses of cash, receivables and property and ex gratia payments

44. No cases were reported to the Board.

Part II: Management issues

Business planning and development

Introduction

45. As a self-financing organization, UNOPS must ensure that it generates sufficient income to cover its costs. This, in turn, depends upon UNOPS providing timely, efficient and high quality services to its clients. UNOPS management considered that the long-term health and financial viability of the new organization should start with a prompt and effective response to the organization's immediate needs, and therefore developed a business plan for 1995 to initiate appropriate action.

Operational priorities and financial targets

46. The business plan focused largely on short-term business requirements expected for 1995 and the early part of 1996. UNOPS identified three priorities for 1995: improving the quality of its services; building and enhancing relationships with its client community; and completing the transition from OPS to UNOPS.

47. UNOPS management considered that these priorities were essential elements in establishing and maintaining UNOPS as a financially viable organization capable of providing the high quality services that its clients expect. In

particular, UNOPS regards improving the quality of services as the cornerstone of its business strategy. UNOPS also set itself financial targets for 1995.

Scope of examination

48. Against this background, the Board examined:

(a) The formulation of the business plan, to assess whether it provided a sound basis for the development of the new organization and to identify lessons for the future;

(b) How UNOPS implemented the plan and monitored its progress;

(c) The progress and achievements of UNOPS against the timetable and measures of success set out in the plan.

Formulation of the business plan

49. The Board endorses the initiative of UNOPS in developing an annual business plan and considers that it represents a significant step forward for the new organization. In particular, the 1995 business plan provides a valuable reference point to help UNOPS refine its business planning and development work in future years. The Board identified, however, several issues concerning the formulation of the 1995 plan that UNOPS should address in future planning exercises.

50. UNOPS organized a series of internal working groups and undertook a survey of UNDP resident representatives to help identify those aspects of its services and client relationships that were most in need of improvement. The working groups identified underlying problems in organization, procedures and staffing, while the survey highlighted clients' concerns about customer relations and the timeliness, quality and flexibility of UNOPS services. Together, the results of these exercises confirmed the view of UNOPS management that improvements were necessary.

51. The survey did not, however, cover all UNOPS clients. UNOPS sent the questionnaire to 69 of the 132 UNDP resident representatives. UNOPS explained that these country offices were the main clients of UNOPS within UNDP. With 49 resident representatives responding to the questionnaire, UNOPS obtained the views of 35 per cent of country offices.

52. Moreover, the survey did not cover other key clients such as the World Bank, the International Fund for Agricultural Development (IFAD) and other parts of UNDP such as the units involved in the implementation of the Montreal Protocol and the Global Environment Facility. With a projected decline in the number of new mainstream UNDP projects coming to UNOPS in the future, the need for UNOPS to take account of the views of other clients will grow. UNOPS should therefore continue to monitor the shifts in the composition of its client base and, where necessary, canvass emerging major clients to ensure that future business plans address their concerns. UNOPS fully recognizes the need to keep its business plans relevant to client needs and intends to achieve this by undertaking further client surveys, continuing and expanding its regular meetings with key clients and by improving its client relationship strategy under the management of its newly appointed Business Development Coordinator.

Scope of the business plan

53. The scope of the 1995 business plan was, from the outset, ambitious in aiming to address a backlog of problems that had built up over previous years while UNOPS also sought to complete and consolidate its position as a new organization distinct from UNDP. For each of the three priorities, the business plan set out a schedule of tasks that needed to be undertaken. The plan contained a total of 57 tasks, 54 of which were planned for completion by December 1995. Some tasks had major implications for the running of the organization. UNOPS considered 16 tasks obligatory as they concerned completing the transition to UNOPS. The other 41 tasks were focused on intended improvements to quality service and to building and enhancing the relationship of UNOPS with the client community.

54. Moreover, during 1995, UNOPS management had to divert its attention away from the business plan towards addressing more immediate problems, such as a projected shortfall in delivery. In addition, UNOPS told the Board that the task of restructuring the organization had required greater effort than envisaged in the plan and that this had pre-empted some other business plan tasks from being undertaken. While UNOPS considers its restructuring as a necessary foundation for making significant long-term improvements, this emphasis diminished the chances of UNOPS of implementing the plan in its entirety.

55. During the preparation of the business plan, UNOPS staff prepared estimates of the level of internal and external resources that would be required to implement the plan. They estimated that parts of the plan would require internal resources of 49 person months and external resources costing $435,000. UNOPS did not complete the estimates, however, and did not identify the level of resources required to implement the final plan. Nor did it consider the availability of such resources or assess whether the various tasks offered value for money in the light of the anticipated benefits to the organization.

56. The Board recommends that, in future business plans, UNOPS set realistic objectives and consider the costs and benefits of undertaking the business plan tasks to assess whether they offer value for money. UNOPS shares the Board's concern that the business plan should be a productive and effective instrument which justifies the resources put into it, and has therefore started to build these lessons into its 1996 business plan.

Financial targets

57. UNOPS based its financial projections on a combination of its existing portfolio and forecasts of the business which UNOPS expected to attract during 1995. UNOPS noted that, since 1986, there had been a steady annual growth in both project budgets and expenditures but that it could not assume that that trend would continue in view of a steady decline in the value of new projects during 1993 and 1994. UNOPS therefore set prudent financial targets for 1995 compared with actual performance in previous years, noting also that achievement would largely depend upon its success in addressing its three operational priorities.

58. UNOPS set seven financial targets for 1995, six of which were interdependent. One of the targets was to achieve a minimum average rate of income of 8 per cent of total delivery so that UNOPS could cover its projected administrative costs. This was a composite rate since UNOPS' rates of income vary between different clients and types of services. UNOPS earns the highest

rates on UNDP projects where its fees are determined by Administrative and Operational Service rates approved by the UNDP Governing Council. These rates apply to half of the total portfolio of UNOPS.

59. While UNOPS took the different income rates into consideration in setting its overall financial targets, it did not reflect them explicitly in the plan. The Board therefore recommends that, in future business plans, UNOPS assess the potential impact that the shifting composition of its portfolio could have on its financial position and set financial targets that reflect its differential income rates. UNOPS agrees with that recommendation and has told the Board that it will apply it in its business plan and financial targets for 1996.

Implementation of the business plan

60. UNOPS started to implement the draft plan in January 1995, although it was not finalized until June 1995. The Board was pleased to note that UNOPS had issued a copy of the final plan to all of its staff so that they would have a clear view of the organization's objectives and priorities and of how UNOPS intended to address them.

61. UNOPS did not prioritize the tasks according to whether they were, for example, critical, important or desirable. Such a ranking would have allowed staff to prioritize their own work and address the most important first. The Board recommends that, in future business plans, UNOPS prioritize tasks to ensure that it implements them according to their respective importance to the organization. UNOPS has recognized that the prioritization of tasks is an important part of a business plan and is using criteria, provisionally drafted during the 1995 planning process, to prioritize tasks for its 1996 business plan.

Monitoring of the business plan

62. UNOPS reported its progress against the plan to its Management Coordination Committee. Although the Committee's progress report of 30 October 1995 concentrated on the plan's principal achievements, it did not consider UNOPS progress in implementing 15 of the 26 tasks that had been planned for completion by September 1995. In particular, the report did not cover UNOPS progress on six key tasks that were intended to improve UNOPS payments, recruitment and purchasing processes, formalize and clarify UNOPS relationship with UNDP and establish a central services agreement with UNDP. UNOPS has pointed out that it is linking its business plan more closely with the workplans of individual organizational units, and that the close monitoring of these workplans should, in turn, improve the monitoring of the business plan. UNOPS also considers that monitoring should improve with the appointment of a director of operations.

Progress and achievements

63. By December 1995, UNOPS had progressed many of the business plan tasks. In particular, UNOPS had started to reorganize itself, locating central service functions in operational divisions with the aim of improving quality of service. As of December 1995, UNOPS had completed only 9 of the 57 tasks and had not started work on 22 tasks, although UNOPS reports that it has since initiated or completed additional tasks. There were significant shortfalls in the following areas:

(a) Improving quality of service. UNOPS had made little progress in this area, particularly in addressing performance problems in payments, recruitment

and purchasing processes. This was a significant gap in view of the recognition by UNOPS that service improvements were the cornerstone of its business strategy;

(b) Enhancing client relationships. UNOPS had assigned 8 of the 18 client relations tasks to a marketing coordinator. UNOPS had, however, postponed the appointment of a coordinator until 1996 owing to UNOPS concerns about its level of resources. As a result, UNOPS did not implement any of these tasks. Moreover, the absence of a marketing coordinator limited or prevented progress on four other tasks;

(c) Completing the transition to UNOPS. UNOPS had not completed key tasks concerning the drafting of a memorandum of understanding and associated agreements with UNDP. These tasks were intended to establish formal arrangements concerning staffing procedures, staff separation entitlements and liabilities and UNDP's provision of central services. In November 1995, the Management Coordination Committee recommended that every effort should be made to conclude these matters by December 1995. UNOPS and UNDP have yet to complete these agreements but are working closely together to finalize them as a matter of priority. Other key tasks, such as the completion of a risk analysis study and the establishment of a Users Advisory Group, also slipped into 1996.

64. The Board is concerned about the delays in finalizing the memorandum of understanding with UNDP. UNOPS has completed a full year of operations without formal regularization of several key issues, necessary to complete and underpin its separation from UNDP. The Board therefore endorses the efforts of UNOPS to complete this important agreement as a matter of priority. The Board also considers it essential that the risk analysis study be completed as soon as possible so that, where necessary, UNOPS can take timely action to safeguard its financial and operational position.

65. In addition, the Board recommends that UNOPS replace its Interim Information System Strategy, of November 1993, with an up-to-date strategy. UNOPS uses a range of management information systems and is planning to implement parts of the Integrated Management Information System developed by the United Nations.

66. UNOPS attributed the lack of progress to a number of factors, including the need for staff to concentrate on improving delivery in the second half of 1995, and to delays in concluding an agreement with UNDP. In addition, UNOPS had postponed some tasks pending completion of its reorganization, which was a major undertaking affecting many aspects of UNOPS operations. Other factors, including a shortage of resources and competing demands on staff time, contributed to the lack of progress.

Evaluation of achievements

67. In the business plan, UNOPS identified a measure for the success of each task. Many of the measures, however, concerned the preparation of action plans and reports, or the development of management tools and processes. Such intermediate outputs did not provide a suitable basis for evaluating the impact of the business plan on the quality of services or client relations of UNOPS. Where measures of success were more suitable, UNOPS had not established benchmarks against which performance could be compared. The Board therefore recommends that UNOPS establish appropriate measures of success and benchmarks of current performance to assess the impact of its business plans on quality of service and client relations.

68. UNOPS has accepted this recommendation. It considers that the establishment of qualitative and quantitative benchmarks of performance is a key element in assessing not only the impact of its business plans but also quality of service. UNOPS is investigating the suitability of applying international standards, such as the International Service Organization 9000 series, to its business and will continue to poll clients regularly to obtain indications of its performance as perceived by its clients.

69. Some of the business plan tasks contained an evaluation element; others did not. UNOPS had not established an evaluation strategy to assess the impact of the business plan on its performance. In view of the scale of the business plan, such a strategy could have focused evaluation work on key tasks which were expected to provide the most significant improvements in the quality of UNOPS services and client relations.

70. The shortfall in the implementation of the plan and deficiencies in the approach of UNOPS to evaluation meant that UNOPS could not demonstrate that it had achieved improvements as a result of the plan. The Board therefore recommends that UNOPS prepare an evaluation strategy. As part of this work, UNOPS should, in particular, evaluate the service improvements, costs and savings associated with establishing the outpost office in Kuala Lumpur.

71. UNOPS informed the Board that to ensure that the business plan is a productive and effective instrument, its Planning and Information Division will maintain responsibility for refinement of the planning process and development of the plan itself, as well as overall oversight of implementation. In addition to strengthening the linkages between the business plan and individual unit plans, UNOPS intends to assign responsibility for evaluating performance improvements to its Finance, Control and Administration Division, which it plans to establish during 1996. Moreover, UNOPS completed an interim evaluation of the Kuala Lumpur office in April 1996, focusing on service improvements and operational issues. UNOPS has yet to undertake an analysis of the office's costs, savings and break-even thresholds to complete its evaluation.

Appointment and management of consultancy services

Introduction

72. One of the main services of UNOPS involves contracting with consulting firms and individual consultants to provide the expertise necessary for successful development programmes and projects.

73. In its report on the UNDP financial statements for the biennium 1992-1993, 1/ the Board identified deficiencies in the selection and recruitment of consultants by OPS. The Board commented, in particular, on the absence of documentary evidence of formal short-listing procedures to demonstrate a review of the market and a lack of formal records to show the selection criteria applied, the assessment procedures undertaken and the justification of the final choice. The Board also considered that the OPS roster of consulting firms was of limited utility.

74. The Board pointed out that there was scope for improving the procedures employed in selecting and recruiting consultants to ensure that the potential

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1/ Official Records of the General Assembly, Forty-ninth Session, Supplement No. 5A (A/49/5/Add.1), chap. II.

market was adequately tested. The Board recommended that formal records, appropriately signed and reviewed, should be maintained to record details of the consultants considered for a post, the selection criteria applied and the justification of the final choice.

75. During 1994, OPS, UNDP and the United Nations Population Fund (UNFPA) invested significant resources in the development of RESTRAC, a common roster of individual consultants. OPS implemented the roster in July 1994. RESTRAC should enable UNOPS to identify, quickly and independently, candidates for project assignments. UNOPS also planned to develop and implement, during 1995, a new roster of consultancy firms to replace and improve on its existing one which it stopped using in April 1995.

Scope of examination

76. Against this background, the Board examined:

(a) The extent of open competition in the recruitment by UNOPS of individual consultants and consultancy firms;

(b) Progress in the development and utilization of the rosters;

(c) The management and evaluation of consultancy services.

Extent of open competition

77. Many individual consultants were awarded between four and seven contracts in succession on the same project; one consultant worked on 15 assignments, including 4 successive assignments on each of three projects.

78. The Board reviewed 14 contracts that OPS/UNOPS had awarded to individual consultants since July 1994 when OPS implemented RESTRAC. The Board found no evidence that OPS/UNOPS had identified and considered alternative candidates for any of the assignments. Four of the contracts were in excess of $30,000 and shortlists of candidates should therefore have been prepared.

79. In four cases, the appointed consultants had been referred to by name in the terms of reference for the assignments. In the other 10 cases, there was no evidence of how the consultants had been identified. None of the contract files contained candidate shortlists generated from RESTRAC.

80. The Board reviewed 12 contracts awarded to consultancy firms and was pleased to note that, in 11 cases, there was clear evidence that alternatives had been identified and considered, usually through international competitive bidding. In one case, the Procurement Review and Advisory Committee had approved a suitable waiver of competition. All high value cases had been submitted to the Contracts Committee or the Procurement Review and Advisory Committee and had received approval.

81. In some cases, during the pre-qualification stage, UNDP country offices or client Governments had suggested suitable candidate firms or had provided pre-selected shortlists. Seven of the 12 contracts were let before UNOPS stopped using its firms roster in April 1995. In only one case had UNOPS considered firms recorded on the roster. Moreover, of the 12 contracts, 7 did not involve consideration of any firms already registered with UNOPS. These findings suggested that the firms roster was underutilized before UNOPS withdrew

it and that the UNOPS large, paper-based register of firms was not being fully used.

82. The Board recognizes that for some assignments, for example where a degree of continuity is required, it may be reasonable for UNOPS to award follow-on contracts on the same project to an individual or firm. UNOPS requires justifications for follow-on contracts to be given on a case-by-case basis before it awards contracts. The Board is concerned, however, that the practice of repeat recruitment has unduly limited the extent to which UNOPS has tested the market for the provision of consultancy services.

83. UNOPS is committed to a fair and transparent process for the identification and selection of consultants that allows equal opportunity for the engagement of qualified individuals and firms. It also fully recognizes that such processes enhance the capability of UNOPS to provide its clients with good value for money. Moreover, UNOPS understands that it needs to be able to demonstrate accountability by documenting the recruitment process.

84. The Board welcomes the commitment of UNOPS and recommends that it regularly review the extent of repeat recruitment to ensure that it exercises sufficient choice in the selection of individual consultants and consultancy firms. The Board also reiterates the need for UNOPS to document the selection and recruitment process thoroughly so that it is transparent and that UNOPS can clearly demonstrate accountability.

Assessing demand for and supply of consultancy specialties

85. The aim of UNOPS of providing high quality consultancy services on a timely basis depends on access to relevant, reliable and up-to-date sources of information. Between July 1994 and October 1995, OPS/UNOPS registered 1,400 individual consultants on RESTRAC. UNOPS had not, however, undertaken needs analyses to identify the types of consultancy specialties in demand.

86. UNOPS agreed that it could not readily compare demand and supply by specialty to identify shortages and predict future requirements. With such information, UNOPS would be able to improve its services by advertising to fill such any shortages in advance of possible assignments. At present, UNOPS can identify shortages only at the recruitment stage, which risks delaying the appointment.

87. As part of its project to develop and implement a new firms roster, UNOPS plans to send a computer diskette to all 6,000 firms currently in its contract files, inviting them to register on the new roster. In the absence of a needs analysis, which would allow UNOPS to target the enrolment exercise on specialties that are most in demand, there is a significant risk that, despite its size, the roster will not fully meet the requirements of UNOPS.

88. The Board recommends that UNOPS undertake periodic analyses to identify the specialties most in demand and any shortfalls in supply, with a view to registering individuals and firms with the required skills in advance of possible assignments. UNOPS has recognized that it should conduct a review of the expertise of registered consultants and firms to ensure that there is balance and sufficiency in the number of qualified candidates. UNOPS expects to complete its review by December 1996 and envisages advertising externally for consultants with specific expertise to fill any gaps that it identifies.

Screening of individual consultants

89. When it implemented RESTRAC in July 1994, OPS devised a screening process that was intended to ensure that it registered only individual consultants with the appropriate expertise and experience. Of the 1,800 curricula vitae received since then, 1,400 (78 per cent) have been accepted and placed on the RESTRAC roster.

90. One UNOPS staff member has been responsible for screening the curricula vitae, although in some cases project management officers have assisted. OPS prepared a standard screening form to assess the skills, qualifications and experience of individual consultants seeking placement on RESTRAC. The screening involves allocating points against 10 criteria according to the information provided by the candidate and sets a minimum score for the consultant to be registered. The Board identified several deficiencies in the screening process:

(a) The Board selected 14 individual consultants who had been awarded contracts and found that 8 had been registered on RESTRAC but that no screening forms had been completed for them;

(b) Five key screening criteria, which together represented 75 per cent of the total points available, involved subjective assessments of the candidate's expertise and experience but there was inadequate guidance on how these assessments should be made;

(c) The screening form did not take account of a candidate's performance on previous UNOPS assignments;

(d) There was no formal monitoring and supervision of the screening process to ensure that it was undertaken on a sound and consistent basis.

91. UNOPS could not, therefore, demonstrate that it exercised appropriate quality control over the enrolment of individual consultants. The Board recommends that UNOPS improve the screening of individual consultants by providing appropriate guidance and establishing effective monitoring and supervision of the screening process.

92. UNOPS has long considered that it should place both the roster of firms and the roster of individual consultants under the supervision of one manager. In December 1995, UNOPS assigned such responsibility to the post of Director of Operations. UNOPS planned to complete, by June 1996, a review of RESTRAC data to ensure that information was up to date and that curricula vitae already entered on the system had been properly screened. UNOPS will consider ways of strengthening the screening process in response to the Board's recommendations.

Development of the roster of firms

93. In February 1994, OPS let an $85,000 contract for the development of a new roster of firms as part of an integrated contract management system. The target date for completion of the system was January 1995. There has, however, been a considerable slippage in the timetable for the implementation of the system. Moreover, in April 1995, UNOPS stopped using its existing roster of firms. The Board identified significant shortcomings in both the management of the project and in the contract, which contributed to the delay in implementing the system.

94. The Board considers that UNOPS should have established effective management and control over the project to ensure that it progressed according to plan. However, responsibility for managing the project had not been stable: it had passed between three members of staff during 1994 and 1995 and had not been effective. There were also significant shortcomings in the contract: there was no timetable for completion of each component of the system, only an overall target date; there was no specification of the inputs required from key members of the contractor's team, such as the project manager; and there were no clauses concerning contractual penalties in the event of the contractor's failure to deliver the systems on time and to the required standard. These shortcomings precluded UNOPS from monitoring the progress of the project effectively and from obtaining redress when the contractor failed to provide appropriate staff resources and to deliver on time.

95. Pending the appointment of the new Director of Operations, the Special Assistant to the UNOPS Executive Director has taken over responsibility for managing the project. In January 1996, the supplier delivered the roster's registration system and UNOPS is now testing it. UNOPS plans to start to register the 6,000 firms on the new roster in September 1996, 21 months later than originally planned.

96. Although the value of the contract was not large, the Board considers the project important in terms of its potential for improving contract management, efficiency and quality of service. Moreover, the deficiencies in the management of the project, and in the terms of the contract, highlighted important lessons for future projects. The Board recommends that UNOPS ensure that future contracts incorporate detailed specifications of requirements and suitable penalty clauses so that UNOPS receives redress in the event of a failure by contractors to meet their contractual obligations.

Utilization of the roster of individual consultants

97. In November 1995, the Board carried out a survey of UNOPS staff responsible for identifying individual consultants and firms for project assignments. Results indicated a significant under-utilization of RESTRAC and confirmed the view of UNOPS management that, 18 months after implementation of RESTRAC, the system had still not been institutionalized.

98. UNOPS staff did not use the system on a regular, systematic basis. Most respondents used other sources, including other UNOPS staff, their own knowledge or "mini rosters" and external organizations such as UNDP, Governments and the World Bank. The Board is concerned about the underutilization of RESTRAC, since significant resources have been invested in its development and its potential is not being realized. The systematic use of the roster should ensure that UNOPS obtains benefits from a common pool of expertise that is readily available across the whole of the organization.

99. The Board considers that UNOPS needs to ensure that the system is kept up to date. For example, 6 of the 14 consultants that the Board selected for review had not been registered on RESTRAC after they had been awarded contracts. Their details were not therefore automatically available to staff of the organization who were considering candidates for assignments. UNOPS must exploit to the full all of the information that it has at its disposal in order to gain maximum advantage in running its business. Systematic use and updating of rosters should contribute to this.

100. Through its survey, the Board identified the main reasons why RESTRAC was underused. Half of the staff had not received guidance or attended training on the use of the system. Among other factors, the most significant were that staff considered it quicker to use other sources, the roster did not contain details of suitable individuals and there was no access to the system in the outpost office in Kuala Lumpur.

101. There were concerns within UNOPS about the reliability of RESTRAC, which is maintained by UNDP, and about the UNOPS lack of control over data entered onto the system by UNDP and UNFPA. UNOPS management was also concerned that the sharing of information might not be compatible with the new identity of UNOPS, where much of its business advantage lies in the quality of the information it possesses. UNOPS considered that it had to address those issues to ensure that RESTRAC continued to be relevant as a tool to support UNOPS business. UNOPS pointed out that it would investigate methods for separating its candidates from other candidates on the system and for operating RESTRAC independently of UNDP and UNFPA. UNOPS expected to clarify these matters by October 1996.

102. The Board considers that there are other steps that UNOPS could take to make better use of the system. The Board recommends that UNOPS screen and, where appropriate, register on the system individual consultants identified independently of RESTRAC, ensure that all staff are fully trained in the use of the system and investigate the scope for making RESTRAC available to the UNOPS office in Kuala Lumpur. UNOPS has accepted these recommendations and plans, by December 1996, to have developed a system to up date RESTRAC with the details of candidates identified independently by staff, provided additional training on RESTRAC and developed techniques to monitor the utilization of the system. UNOPS anticipates that its Finance, Control and Administration Division, which it plans to establish in 1996, will monitor and review the adherence of operational divisions to standards concerning roster use and candidate selection. In addition, UNOPS has included in the 1996 workplan of its Information Unit the objective of providing all UNOPS outpost offices with full access to RESTRAC.

Determination of fees

103. OPS last issued guidelines for determining fees in July 1992. Since then, UNOPS staff have expressed concern that there is a need for more transparency on how to determine fees for consultancy assignments. The Board therefore recommends that UNOPS undertake a review of current market rates for consultancy services, to be used as a benchmark for setting fees, and issue new guidelines to ensure that its staff determine fees on a consistent and transparent basis. UNOPS has accepted these recommendations and is considering how it should take them forward.

Evaluation of consultancy performance

104. To ensure that it is providing high quality consultancy services to its clients, UNOPS must have a system for evaluating the performance of individuals and firms once their assignments are complete. Such evaluations should be documented to build up a record of performance as a basis for learning lessons and placing future work. The Board identified significant deficiencies in UNOPS practices.

105. The UNOPS standard performance evaluation form for an individual consultant referred to the consultant's attributes; it did not focus on the more important issues concerning the consultant's actual performance and contribution to

project achievements. In addition, UNOPS had not evaluated the performance of consultants on a systematic basis; and it had not evaluated the performance of 6 of the 14 consultants selected by the Board for review. Of the 57 contracts that these 14 consultants had been awarded during 1994 and 1995, only 25 had been subjected to an evaluation. In most cases where an evaluation form had been completed, performance had been rated as very good or outstanding. There was no clear evidence, however, to support the conclusions reached.

106. One of the tasks set out in the UNOPS 1995 business plan had been to develop and institute procedures for appraising project personnel performance. UNOPS has not yet established, however, any evaluation procedures for consultancy firms. The Board recommends that UNOPS revise the performance evaluation form for individual consultants and develop a form for consultancy firms focusing on the assessment of actual performance. It should also establish clearly defined evaluation procedures, involving formal review and feedback from UNDP country offices and government officials where they are best placed to evaluate performance.

107. UNOPS should also consider entering the results of the evaluations into RESTRAC and the new firms roster so that they are accessible to staff. UNOPS has confirmed that the RESTRAC system does permit staff to attach performance evaluations to candidates' files and that it will include the results of such evaluations in the candidate selection process. UNOPS will also investigate the feasibility of including performance evaluation facilities in the new firms' roster.

Price setting and cost control

Introduction

108. UNOPS earns income based on rates approved by the UNDP Governing Council or negotiated with individual clients. For each of its services, however, UNOPS should ensure that its income will cover all of the costs which it will incur in providing those services, including an appropriate share of overhead costs. In addition, UNOPS has to consider other factors in price setting:

(a) Financing service improvements. Although it is expected to be a not-for-profit organization, UNOPS has to generate surpluses in order to finance service improvements;

(b) Assuring UNOPS' financial security. As a self-financing organization, separate from UNDP, UNOPS needs to maintain an appropriate reserve to meet potential liabilities and assure the organization's financial security;

(c) Providing cost-effective services. UNOPS has to ensure that it remains competitive with other organizations that offer similar types of services;

(d) Recovering the full costs of Management Service Agreements. UNDP financial rule 114.27(b) requires UNOPS to ensure that Management Service Agreements provide for full reimbursement of any costs incurred by UNOPS and UNDP in providing the relevant services.

109. In 1995, UNOPS generated a surplus of $2.7 million. With accumulated unspent income of $10.3 million carried forward from 1994, UNOPS had total unspent resources of $13 million at its disposal by the end of 1995.

110. UNOPS recognized, however, that as a self-financing organization, it needed to maintain an operational reserve to cover potential financial liabilities arising, for example, from shortfalls in income or diminished cash flow, together with project-related professional and contractual liabilities. Using UNDP practice as a guide, and with Executive Board approval, UNOPS transferred $6.8 million of its unspent income into an operational reserve in December 1995, leaving $6.2 million as accumulated unspent income to be used for operational purposes.

111. In 1990-1991, the Board of Auditors examined the OPS system for determining its fees for Management Service Agreements. The Board considered that the method for calculating fees had serious deficiencies that were likely to impair the validity of the results. In response, OPS introduced revised arrangements in December 1992 intended to overcome the identified deficiencies.

Scope of examination

112. Against this background, the Board examined how well UNOPS:

(a) Estimated the likely costs of providing its project services;

(b) Scrutinized the financial viability of project proposals;

(c) Monitored and controlled costs.

Workload assessment and costing systems

113. In 1988, OPS introduced a computer-based Project Management Officer Workload System, designed to help project management officers estimate and cost the amount of time that they might take on their respective projects. OPS became concerned, however, about the reliability of the data provided by the system. In a report of January 1994, management consultants noted significant deficiencies in the system. In particular, the system did not accurately reflect workload on all types of projects and did not provide sufficiently accurate information for calculating fees for Management Service Agreements.

114. The management consultants recommended that OPS replace its Project Management Officer Workload System with a system based on standard work units or norms. A subsequent review in February 1994 by a second management consultant tested the recommended approach on a selection of projects and concluded that it would be both practical and an improvement over the existing arrangements. OPS did not, however, proceed any further with this work, owing to the more pressing need to prepare for transition into UNOPS.

115. The Board selected two samples of projects for examination:

(a) A total of 25 projects that generated income for UNOPS in 1995 to test whether the original proposals were properly supported by workload assessments and costings;

(b) A further 30 projects, which had been accepted by the Project Acceptance Committee in 1995.

116. The Board interviewed a selection of project management officers and two division chiefs to ascertain the extent to which UNOPS staff still used the Project Management Officer Workload System, the adequacy and credibility of the

System and any alternative approaches that staff used to calculate project workloads and costings.

117. In the first sample, there were no workload assessments to support eight (32 per cent) of the projects. Moreover, for the 17 projects where workload assessments had been prepared, there was no documentation to reconcile the significant variances between the costings calculated through the assessments and the project fees and charges that UNOPS would receive from the projects.

118. The results of the second sample reinforced these findings. They showed that UNOPS staff still used the PMO Workload System: there were entries on the System for 23 (77 per cent) of the 30 projects examined. In none of the cases, however, was there a clear link between the system's workload and cost calculations and the anticipated fees and charges under the projects. Nor was there any evidence of reconciliations between the two. Staff pointed out that they used the System mechanistically to satisfy the requirements of UNOPS that all project proposals should be supported by workload assessments. Project management officers often regarded more subjective assessments, based on their experience of previous projects, as being more appropriate.

119. The Board considers that a workload assessment and costing system is now a pressing requirement for UNOPS, to provide reliable workload and cost calculations for comparison with expected fees and charges of project proposals. The Board therefore recommends that UNOPS develop a workload assessment and costing system.

120. UNOPS agrees that there must be a clear definition of, and correlation between, workload assessment, costing and estimates of fees and charges. UNOPS does not consider, however, that the level of precision recommended by the Board is currently essential or affordable. The objective of UNOPS is to achieve sufficient accuracy to satisfy itself and its clients that the relationship between costs and fees is logical and reasonable. UNOPS told the Board that the fees for some projects, particularly the very small ones, might not always cover costs. UNOPS considers that this is an appropriate part of providing services across its full range of clients, subject to the overall fee structure covering a particular client's total project portfolio.

121. UNOPS is currently establishing integrated service divisions, the cost of which will be more closely linked to the fees negotiated with individual clients. UNOPS considers that accuracy beyond this level, with fees and costs matched on a project-by-project basis, would increase costs without necessarily adding value. UNOPS emphasized, however, that it had not discounted alternative approaches on this important topic, but that it first wanted to complete its reorganization and evaluate whether the improvements and benefits it expected from the re-organization materialized in practice.

Costs of Management Service Agreements

122. In December 1992, when it introduced revised arrangements for calculating management service agreement fees, OPS calculated a separate service unit cost for its operational divisions and for the Japanese Procurement Programme respectively. The service unit costs consisted of project management officer staff costs, an apportionment of the staff costs of management and support units, and an apportionment of the OPS overall general operating expenses. The basis for calculating the service unit costs has become out-of-date because:

(a) It reflects an organizational structure which changed significantly during 1995 with the introduction of integrated teams and the reduction of management support sections;

(b) It uses the number of staff-in-post and staff costs in 1992; since then, the number, types and costs of staff have changed significantly. It was not clear that successive annual five per cent uplifts in the resultant service unit costs accurately reflected these changes;

(c) Given the organizational changes since 1992, there is no evidence that the apportionments of management support unit costs and general operating expenses continued to be reliable.

123. UNOPS fully recognizes that it needs to revise the service unit costs. UNOPS has delayed such revisions pending the completion of the reorganization of its divisional structure in October 1996. The Board therefore recommends that UNOPS revise the bases for the calculation of Management Service Agreement fees to reflect current costs more accurately. As part of this, UNOPS should clearly document the rationale and the evidence to support the bases on which management and support unit costs and general operating expenses are apportioned. The Board also recommends that UNOPS update the service unit costs annually or when any major changes occur in staffing levels, organizational structure or other relevant factors. UNOPS agrees with those recommendations and will take action to address them accordingly.

124. In addition to the service unit costs for management service agreements, UNOPS staff are expected:

(a) To estimate their travel and daily subsistence costs and consultants' costs associated with delivering the management service agreements;

(b) To identify reimbursements to UNDP country offices, as agreed with the Resident Representatives, for services rendered on behalf of UNOPS in the field.

125. The Board selected a sample of six Management Service Agreements that earned UNOPS income in 1995. There was no documentation to support the estimates of travel, daily subsistence and consultants' costs for any of the Agreements.

126. UNOPS shared the Board's concern about the lack of documentation for those estimates and noted that greater clarity would be in the best interest of UNOPS and its clients. UNOPS told the Board that it pursued such clarity through discussions with clients and attempted to document the estimates. UNOPS pointed out, however, that the accuracy of the estimates depended on clients' own knowledge of the circumstances under which projects would be implemented and that their knowledge was often limited at the time that project documents were prepared. Moreover, UNOPS considered that the absence of clearly documented estimates was not, in most cases, a significant impediment to the implementation of projects or an element of great risk to UNOPS or its clients.

127. The Board noted that none of the agreed country office reimbursements was supported by a breakdown of the costs that the country offices expected to incur in providing their assistance to UNOPS. In all cases, UNOPS staff negotiated the amount of reimbursement with country offices on the basis of the level of reimbursement agreed for similar projects in the past. These costs often constitute a significant part of the overall management service agreement fee. In 1995, the total UNOPS reimbursements to country offices amounted to some

$1 million. During its review of 30 other projects, the Board found one management service agreement where, at the specific request of UNOPS, the relevant country office had provided a breakdown of the estimated costs of assisting UNOPS with the delivery of the management service agreement. The Board endorses that approach.

128. The Board considers that there should be a more formal, transparent approach to reimburse country offices. Such a system would provide UNOPS with more detailed data to track and compare the costs claimed by different country offices across similar types and sizes of projects. The Board therefore recommends that UNOPS establish a formal agreement with UNDP that country offices provide UNOPS with a breakdown of their estimated costs in support of Management Service Agreement activities in the field.

129. UNOPS agrees with the Board's recommendation that there should be a formal agreement between UNOPS and UNDP concerning country office reimbursements and is committed to pursuing this issue with UNDP. UNOPS expects that, if it can reach a formal agreement with UNDP, it will become easier to determine whether value for money is being received based on what has been explicitly agreed between UNOPS and the country offices.

Financial scrutiny of project proposals

130. Since April 1995, UNOPS project proposals have been submitted for approval either to the Project Acceptance Committee or, under delegated authority arrangements, to the respective chief of division. One of the purposes of the Committee meetings is to assess the potential liabilities and risks associated with a project and to determine how they can be managed or minimized. The Board examined the minutes of the Committee meetings for 10 projects accepted by the Committee in 1995. None of the minutes addressed the issue of whether the anticipated income from the projects was expected to cover the costs of providing the services. UNOPS pointed out that some Committee meetings had considered this issue although they had not documented such deliberations.

131. From its review of the Project Acceptance Committee submissions for 25 other projects, the Board concluded that the absence of workload assessments and costings precluded the Committee from undertaking rigorous and meaningful reviews of anticipated project costs and income. The Board is therefore concerned that UNOPS is accepting projects without an accurate scrutiny of the projects' likely financial returns and liabilities. There is therefore the risk that UNOPS is accepting projects on which it will not fully recover its costs. The Board recommends that UNOPS require Committee meetings and division chiefs to assess and document, as part of the project acceptance process, whether the costs of delivering a project are likely to be met by the charges or fees set by or agreed with the relevant clients.

132. UNOPS expects its reorganization to allow for the recovery of costs at the client, rather than at the project level. UNOPS informed the Board, however, that it will reconsider the issue concerning the financial scrutiny of project proposal once it has appointed the new Director of Operations.

Monitoring and controlling costs

133. UNOPS does not operate a system of time recording that would allow it to assess the actual costs of delivering individual projects. The UNOPS cost control arrangements therefore involved ensuring that administrative costs were matched by income received in overall terms. These factors, together with the

deficiencies in the estimation and apportionment of the costs of services, meant that UNOPS could not clearly demonstrate that it recovered the full cost of providing each of its services through its various fees and charges.

134. The management consultants' report of January 1994 considered the option of introducing a time recording system. The consultants concluded that a time recording system for billing clients based on actual time spent on projects would be difficult to administer, involve substantial effort on the part of staff and substantial investment in the development of computer systems. Their review of this option did not, however, quantify the costs and potential benefits of introducing a time recording system. Moreover, since then, UNOPS has become a separate organization for which completeness and transparency in the setting of prices are vital for assuring financial security and for meeting clients' needs.

135. The Board therefore recommends that UNOPS undertake an investment appraisal to evaluate the costs and benefits of introducing a time recording system to support the business objectives of UNOPS.

136. UNOPS pointed out that it had reservations about acting upon that recommendation of the Board, since the primary purpose of introducing a time recording system would be to help identify and monitor costs at the project level in contrast with the current approach of UNOPS of setting fees at the client level. UNOPS told the Board that it would reconsider that issue once it had completed and evaluated its reorganization.

137. UNOPS has established a Financial Management Model to track and forecast income and expenditure on a monthly basis. Projecting a potential deficit in successive monthly forecasts, UNOPS sought to increase its delivery rates while at the same time keeping administrative expenditures at a minimum. As a result, rather than a deficit, UNOPS generated a surplus of $2.7 million in 1995.

138. The financial security of UNOPS is now underpinned by the establishment of an operational reserve of $6.8 million and by further unspent resources of $6.2 million at 31 December 1995. The Board is concerned, however, that UNOPS clients could regard a continued accumulation of resources as inconsistent with the position of UNOPS as a not-for-profit organization. Moreover, where UNOPS generates surpluses through staff savings or by postponing initiatives intended to facilitate service improvements, the build-up of unspent resources could be inconsistent with the UNOPS objective of providing cost-effective, quality services.

139. The Executive Board has asked UNOPS to draw up a plan on how it will decide on the utilization of its unspent resources. The Executive Board has not specified, however, what it considers to be a reasonable annual surplus or level of unspent resources for UNOPS. Both of these issues would be of particular interest to the UNOPS Users' Advisory Committee. The Board therefore recommends that UNOPS assess the levels of annual surpluses and accumulated unspent resources to determine levels which are reasonable and consistent with its business objectives. UNOPS fully accepts that recommendation. A risk analysis study due for completion in July 1996 will be used as a basis for recommending to the Executive Board an appropriate level for the UNOPS operational reserve, taking account of UNOPS own specific circumstances. UNOPS attached the highest priority to that issue and is now working to address it as a matter of urgency and in a much more comprehensive manner than was originally considered necessary through the risk analysis study.

Cases of fraud and presumptive fraud

140. UNOPS reported no cases of fraud or presumptive fraud.

Acknowledgement

141. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and staff of the United Nations Office for Project Services.

(Signed) Osei Tutu PREMPEH
Auditor General of Ghana

(Signed) Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of Great
Britain and Northern Ireland

(Signed) Vijay Krishna SHUNGLU
Comptroller and Auditor
General of India

31 July 1996

ANNEX

Follow-up on actions by the United Nations Office for Project Services to implement the recommendations of the Board of Auditors in its report on the financial statements of the United Nations Development Programme for the biennium ended 31 December 1993 a/

I. RECOMMENDATION 11

1. The Board recommended that formal records, appropriately signed and reviewed, should be maintained that record the consultants considered for a post, the selection criteria applied and justification of the final choice.

Measures taken by the Administration

2. UNOPS, together with UNDP and UNFPA, developed a computerized consultants' roster. UNOPS implemented the new roster in July 1994.

Comments of the Board

3. In its review of the appointment and management of consultancy services, the Board commented on deficiencies in both the utilization and maintenance of the consultants' roster and the documentation of the identification and selection of consultants. Further action is therefore required of UNOPS.

II. RECOMMENDATION 12 (a)

4. The Board recommended that there should be an evaluation of the potential cost and benefits of sponsoring staff in a formal programme of training in the procurement of goods and services.

Measures taken by the Administration

5. UNOPS, together with George Washington University, developed and conducted a comprehensive 13-day training programme for contracting of services. Over 100 staff from UNOPS, as well as UNDP, United Nations and other agencies, participated. The programme has been consolidated into a four-day course for future presentation at headquarters and in the field.

Comments of the Board

6. The Board endorses these efforts and notes that UNOPS has requested George Washington University to assess the impact of the courses and, in particular, the extent to which skills and knowledge have been transferred to UNOPS staff. UNOPS expects the evaluation to be complete by August 1996.

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a/ Official Records of the General Assembly, Forty-ninth Session, Supplement No. 5A (A/49/5/Add.1), chap. II, paras. 11-13.

III. RECOMMENDATION 12 (b)

7. Response rates to invitations to bid should be closely monitored by management to identify the major reasons for non-response and to correct any recurring problems.

Measures taken by the Administration

8. UNOPS now requires procurement officers to explain why an insufficient number of suppliers submitted bids, and also to short-list 6 suppliers for purchases over $30,000 and 6 to 12 suppliers for purchases over $100,000. For common-user items, the Inter-Agency Procurement Service Office has continued with the issuance of product catalogues, in which prices and delivery terms have been obtained through international competitive bidding and coordinated negotiations with suppliers. The catalogues are used by UNOPS.

Comments of the Board

9. UNOPS informed the Board that its Procurement Review and Advisory Committee regularly questioned the adequacy of supplier shortlists and the suspected or known reasons for non-response in purchase of $100,000 or more. UNOPS also pointed out that procurement officers regularly consulted the Inter-Agency Procurement Service Office catalogues for certain standard items, particularly motor vehicles.

IV. RECOMMENDATION 12 (c)

10. The Board recommended that use of suppliers' rosters should be improved.

Measures taken by the Administration

11. UNOPS has fully implemented its vendor registration roster as an integral part of its purchasing software. UNOPS utilizes the Inter-Agency Procurement Service Office Common Vendor Database and requires procurement officers to scrutinize suppliers closely, including their financial and technical capacity.

Comments of the Board

12. In addition to its vendor registration roster and the Inter-Agency Procurement Service Office Common Vendor Database, UNOPS told the Board that it used various other databases such as country-based vendor rosters provided by agencies and other organizations. UNOPS acknowledged, however, that the systems did not allow it to monitor directly the use of any particular database. Rather, division chiefs and the Procurement Review and Advisory Committee monitored roster usage. UNOPS requires procurement officers to investigate the financial and technical reliability of any firm to which a contract award of $100,000 or more is being considered. It also requires the result of such investigations to be made available to the Procurement Review and Advisory Committee and to be documented.

V. RECOMMENDATION 12 (d)

13. The Board recommended that more use should be made of public advertising.

Measures taken by the Administration

14. UNOPS does not normally resort to bid advertising, as it is not considered cost-effective. For larger procurements, UNOPS has made use of the monthly bulletin of IAPSO, Procurement Update, and other publications for high dollar value purchasing. However, in accordance with existing financial rules, short-listing is the preferred approach for orders below $100,000, which account for up to 25 per cent of UNOPS procurement activity.

Comments of the Board

15. UNOPS told the Board that, as a matter of policy, it used public advertising for high dollar value purchasing. The Board welcomes that approach and urges UNOPS to continue to monitor the implementation of that policy.

VI. RECOMMENDATION 12 (e)

16. The Board recommended that a more flexible role should be considered for the Contracts Committee and that purchasing specialists should be invited to attend meetings of the Committee to bolster its expertise in procurement.

Measures taken by the Administration

17. In January 1995, UNOPS established its Procurement Review and Advisory Committee. Following a year of successful experience, UNOPS is reviewing the Committee's guidelines to consider the scope for improvements, including the possible inclusion of outside purchasing specialists as members of the Committee. In addition, UNOPS has adopted the United Nations System Common Guidelines on Procurement, developed by the Inter-Agency Procurement Working Group.

Comments of the Board

18. UNOPS expects to complete its review of the experience of and new terms of reference for the Procurement Review and Advisory Committee by January 1997. The Board noted, however, that UNOPS had not yet invited external expertise onto the Committee, although UNOPS is considering an enlarged Committee membership, which might include officials from other United Nations bodies as members, advisers or observers.

VII. RECOMMENDATION 12 (f)

19. The Board recommended that the importance of completing receipt and inspection reports should be emphasized to all staff.

Measures taken by the Administration

20. A decentralized inventory system for UNOPS has been explored, which could not be implemented owing to requirements for centralized asset control for UNDP-financed projects. UNOPS is attaching an inventory control module, however, to its purchasing software, which is expected to facilitate inventory monitoring at the field level.

Comments of the Board

21. UNOPS plans to complete the implementation of the inventory control module by December 1996. The module should help to ensure that field staff complete receipt and inspection reports and accept accountability for the goods delivered.

VIII. RECOMMENDATION 12 (g)

22. The Board recommended the introduction of performance measures and targets as soon as practicable to assist management in monitoring and assessing the efficiency of procurement activities.

Measures taken by the Administration

23. UNOPS is integrating its purchasing specialists into operational units devoted to project management. Once that integration exercise is completed, UNOPS expects to establish performance standards concerning the performance of the integrated teams which it can then monitor.

Comments of the Board

24. UNOPS informed the Board that it is establishing performance measures and targets for each of its operational divisions and will also develop during 1996 measures of client satisfaction and clearly defined performance expectations as part of a customer charter. Moreover, UNOPS is also investigating the application of international standards to its business operations. The Board welcomes these plans.

III. AUDIT OPINION

We have examined the following appended financial statements, numbered I and II, properly identified, schedules 1 to 3 and the supporting explanatory notes of the United Nations Office for Project Services for the financial period ended 31 December 1995 in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the financial statements present fairly the financial position of the United Nations Office for Project Services as at 31 December 1995 and the results of its operations for the financial period then ended; that they were prepared in accordance with the stated accounting policies; and that the transactions were in accordance with the Financial Regulations and the relevant legislative authority.

In accordance with our usual practice, we have issued a long form audit report on our audit of the United Nations Office for Project Services financial statements, as provided for in the Financial Regulations.

(Signed) Osei Tutu PREMPEH
Auditor General of Ghana

(Signed) Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of Great
Britain and Northern Ireland

(Signed) Vijay Krishna SHUNGLU
Comptroller and Auditor General
of India

31 July 1996

IV. FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1995

Statement I. Statement of income and expenditure for the year ended 31 December 1995, with comparative figures for the year ended 31 December 1994 a/

(United States dollars)

1994			1995
	INCOME		
	Support costs and fees:		
13 258 043	UNDP - funded projects		12 892 460
847 459	UNOPS as Cooperating/Associated Agency		1 415 313
1 811 127	United Nations International Drug Control Programme-funded projects		1 234 768
4 351 811	Trust Funds projects		5 251 227
5 964 036	Management Services Agreements		5 829 663
26 232 476	Total support costs and fees	(schedule 1 and note 2 b/)	26 623 431
2 660 615	IFAD - Loan administration fees	(note 3)	3 068 710
0	Interest income	(note 4)	683 727
50 000	Programme of Assistance to the Palestinian People - Accounting services	(note 5)	50 000
28 943 091	**TOTAL INCOME**		30 425 868
	EXPENDITURE		
27 926 628	Administrative budget expenditures	(schedule 2)	27 688 064
27 926 628	**TOTAL EXPENDITURE**		27 688 064
1 016 463	**SURPLUS INCOME**	(schedule 3)	**2 737 804**

a/ UNOPS was established effective 1 January 1995. Figures for the year ended 31 December 1994, when OPS was part of UNDP, are given because UNOPS administrative budget, as shown in schedule 2, was approved by the Executive Board for the biennium 1994-1995.

b/ The accompanying notes are an integral part of the financial statements.

Statement II. Statement of assets and liabilities as at 31 December 1995

(United States dollars)

ASSETS		
Cash	(note 6) a/	2 474 974
Investments of the operational reserve	(note 7)	6 800 000
Accounts receivable and deferred charges	(note 8)	4 591 657
Due from the United Nations International Drug Control Programme	(note 9)	306 966
Due from UNDP	(note 10)	5 170 453
		19 344 050
LIABILITIES, RESERVES AND UNEXPENDED RESOURCES		
Liabilities		
Advances for IFAD - funded projects	(note 11)	716 569
Accounts payable	(note 12)	5 651 314
		6 367 883
Reserves and Accumulated Unspent Income		
Operational reserve	(note 7)	6 800 000
Accumulated unspent income	(schedule 3)	6 176 167
		12 976 167
		19 344 050

a/ The accompanying notes are an integral part of the financial statements.

Schedule 1. Project expenditure and support costs and fees for the year ended 31 December 1995, with comparative figures for the year ended 31 December 1994

(United States dollars)

Project expenditure	Support costs and fees	Project expenditure and support costs and fees		Project Expenditure: Disbursements	Unliquidated obligations	Total	Support costs and fees	Project expenditure and support costs and fees
1994						1995		
			UNDP Funded Projects					
61 865 640	6 006 042	67 871 682	"Old Regime"	27 675 607	8 341 759	36 017 366	2 924 573	38 941 939
72 775 389	7 252 001	80 027 390	"New Regime"	77 507 847	23 305 426	100 813 273	9 967 887	110 781 160
134 641 029	**13 258 043**	**147 899 072**	**Subtotal**	**105 183 454**	**31 647 185**	**136 830 639**	**12 892 460**	**149 723 099**
			UNOPS as Cooperating/Associated Agency					
11 775 589	626 027	12 401 616	UNDP funded projects	12 329 263	3 003 953	15 333 216	1 181 632	16 514 848
2 899 218	221 432	3 120 650	Trust Fund projects	2 437 038	721 570	3 158 608	233 681	3 392 289
14 674 807	**847 459**	**15 522 266**	**Subtotal**	**14 766 301**	**3 725 523**	**18 491 824**	**1 415 313**	**19 907 137**
			United Nations International Drug Control Programme					
24 312 155	**1 811 127**	**26 123 282**	**Funded Projects**	**13 712 764**	**2 756 130**	**16 468 894**	**1 234 768**	**17 703 662**
			Trust Fund Projects					
4 274 178	305 477	4 579 655	Montreal Protocol	7 046 284	18 905 039	25 951 323	1 806 369	27 757 692
23 903 391	1 696 336	25 599 727	Global Environmental Facility	11 068 420	8 283 515	19 351 935	1 309 611	20 661 546
21 538 293	1 123 352	22 661 645	UN Capital Development Fund	9 766 260	7 464 921	17 231 181	921 642	18 152 823
7 497 898	323 862	7 821 760	Humanitarian and Rehabilitation Assistance for Cambodia	8 324 556	682 858	9 007 414	483 320	9 490 734
13 645 436	902 784	14 548 220	Other Trust Funds	6 158 142	2 319 309	8 477 451	730 285	9 207 736
70 868 196	**4 351 811**	**75 211 007**	**Subtotal**	**42 383 662**	**37 636 642**	**80 019 304**	**5 251 227**	**85 270 531**
			Management Services Agreements					
73 622 468	2 341 880	75 964 348	Japan	26 980 665	36 086 846	63 067 511 (note 13)	2 675 333	65 742 844
40 768 625	2 374 653	43 143 278	World Bank Agreements	23 447 646	4 995 178	28 442 824	1 871 956	30 314 780
8 283 621	436 386	8 720 007	Inter-American Development Bank	9 219 349	12 823 055	22 042 404	652 432	22 694 836
18 625 293	811 117	19 436 410	Other MSAs	12 774 136	4 786 727	17 560 863	629 942	18 190 805
141 300 007	**5 964 036**	**147 264 043**	**Subtotal**	**72 421 796**	**58 691 806**	**131 113 602**	**5 829 663**	**136 943 265**
385 787 194	**26 232 476**	**412 019 670**	**Project expenditure and support costs and fees**	**248 467 977**	**134 456 286**	**382 924 263**	**26 623 431**	**409 547 694**
	(statement I)	a/					(statement I)	a/

a/ Project expenditure reported to UNDP and other funding sources.

Schedule 2. Revised budget estimates for the biennium 1994-1995 and expenditure for the biennium ended 31 December 1995

(United States dollars)

Description	Revised budget 1994-1995 a/	Expenditure 1994 b/	Expenditure 1995			Total expenditure 1994/1995	Unencumbered balance
			Disbursements	Unliquidated obligations	Total		
Salaries and wages	27 292 000	13 012 291	13 554 063	52 259	13 606 322	26 618 613	673 387
Common staff costs	12 553 000	6 053 356	5 565 135	86 095	5 651 230	11 704 586	848 414
Official travel	1 113 000	512 610	459 171	97 924	557 095	1 069 705	43 295
Contractual services	1 904 000	853 530	481 608	99 570	581 178	1 434 708	469 292
General operating expenses	6 854 000	3 378 153	3 405 423	87 941	3 493 364	6 871 517	(17 517)
Supplies	453 000	222 834	189 811	6 700	196 511	419 345	33 655
Furniture and equipment	868 000	388 212	324 738	95 836	420 574	808 786	59 214
Cost of central services c/	7 402 000	3 505 642	2 914 568	267 222	3 181 790	6 687 432	714 568
TOTAL	58 439 000	27 926 628	26 894 517	793 547	27 688 064	55 614 692	2 824 308
		(statement I)			(statement I)		

a/ As per DP/1995/60 and Executive Board decision 95/31.

b/ These expenditures were incurred when OPS was part of UNDP. They are included in the present financial statements because the estimated budget approved by the Executive Board covered the biennium 1994-1995.

c/ UNDP provides to UNOPS services in the areas of finance (mainly treasury), personnel (mainly administration of UNOPS staff whose costs are chargeable to the administrative budget), internal audit and others, for which a lump-sum reimbursement is paid to UNDP, equivalent to approximately 14 per cent of UNOPS administrative expenditure.

Schedule 3. Accumulated unspent income

(United States dollars)

Balance as at 1 January 1995 a/		10 238 363
Add / (deduct) :		
Transfer to operational reserve	(note 7)	(6 800 000)
Excess of income over expenditure	(statement I)	2 737 804
Balance as at 31 December 1995	(statement II)	**6 176 167**

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a/ This balance consists of:

Balance as at 31 December 1993		9 221 900
Add: Income earned in 1994 (statement I)	28 943 091	
Less: Administrative expenditure 1994 (schedule 2)	27 926 628	
Excess of income over expenditure in 1994		1 016 463
Balance as at 1 January 1995		10 238 363

Notes to the financial statements

Preface to the summary of significant accounting policies

Financial Regulation 4.1 states that "the [UNOPS] financial period ... shall consist of two consecutive calendar years" (a biennium). The accounting policies noted below have been prepared on this basis.

Executive Board decision 94/32 established UNOPS as an operational, self-financing entity from 1 January 1995. Therefore, for this first reporting period, UNOPS has prepared financial statements for the one year ended 31 December 1995.

UNOPS will prepare future financial statements on a biennial basis.

Note 1. Summary of significant accounting policies

As required by UNOPS financial regulations 8.1 and 8.2, UNOPS maintains the following accounts:

(a) The "UNOPS account", to which all of the income to UNOPS derived from its services are credited and against which all UNOPS administrative expenditures are charged;

(b) Separate "special accounts", for identification, administration and management of resources entrusted to the charge of UNOPS by a funding source.

The financial statements reflect the application of the following significant accounting policies:

(a) Financial policies applicable to the UNOPS account:

(i) Income. All income is accounted for on an accrual basis;

(ii) Expenditure. All expenditure is accounted for on an accrual basis, except for that relating to staff entitlements, which is accounted for on the basis of cash disbursements only. Expenditures chargeable to the UNOPS account relate to the UNOPS administrative budget, as approved by the Executive Board;

(b) Financial policies applicable to the special accounts:

(i) Project expenditure is accounted for on an accrual basis and is incurred following authorization of the funding source in the form of project budgets. The expenditure, plus the support costs and fees charged by UNOPS, is reported to the funding sources so that they can incorporate such expenditure in their records and own financial statements;

(ii) Project expenditures include unliquidated obligations raised under the following criteria:

a. Experts and other project personnel. Costs relating to the period of contractual service falling within the current biennium;

b. Travel on official business. Costs of travel taking place in the current biennium and travel which commences before the end of the current biennium but extends into the next biennium;

c. Subcontracts. Payments falling due in the current biennium according to the terms of the contract or payment schedule;

d. Fellowships. Cost of the fellowship from the anticipated date of commencement of study or start of the current biennium to completion of study or end of the current biennium, whichever is earlier;

e. Group training. Full cost of any training activity held in the current biennium or beginning in the current biennium and ending in the next biennium;

f. Equipment. Full cost of contractual agreement or firm order placed with the supplier prior to the end of the current biennium up to the amount provided in the current budget;

g. Miscellaneous. Cost of events incurred (for example hospitality and reports) and other ad hoc items.

(iii) Certain flexibility provisions may be applied to expenditure incurred under UNDP-funded projects. In any given year, expenditure may exceed an approved project budget for that year by $20,000 or 4 per cent thereof, whichever is the higher, provided overall expenditures for that year do not exceed 2 per cent of the total allocations made to it;

(c) Financial policies applicable to all accounts:

(i) Exchange rates:

a. Except for project expenditure incurred under Management Service Agreements financed by the Government of Japan (Japanese procurement programme), financial transactions in other currencies are translated into United States dollars at the United Nations operational rate of exchange in effect on the date of the report or transaction;

b. For the Japanese procurement programme, expenditure incurred in other currencies is fixed at the United Nations operational rate of exchange in effect at the date of the establishment of the related obligation. This procedure was agreed upon with the UNDP treasury based on the ability of UNDP to enter into hedging arrangements in order to protect against significant fluctuations in exchange rates that might occur between the date of obligation and the date of payment. Any difference between the amount recorded when the purchase order was issued and the payment of such obligation is transferred to UNDP as gains or losses on exchange. These gains or losses are effectively offset by opposite gains or losses booked as a result of having held the currency in UNDP accounts over that period. During 1995, the total of such differences amounted to the equivalent of $763,966; had the arrangement not existed, expenditures under the Japanese procurement programme would have been higher by the same amount;

(ii) Capital expenditure. The full cost of non-expendable equipment is charged to the project accounts or the UNOPS administrative budget as appropriate in the year of purchase. An inventory is maintained of all non-expendable equipment. This is defined as items of equipment valued at $500 or more a unit with a serviceable life of at least five years, and items of equipment included in any special list for which formal inventory records are maintained. As at 31 December 1995, the inventory of non-expendable equipment purchased with funds from the UNOPS administrative budget had a value of $3,138,975.

Note 2. Support costs and Management Service Agreement fees

Most of the income UNOPS earns derives from project implementation services. Depending on the funding source of the project, UNOPS services are compensated with support costs or management fees:

(a) Support costs:

(i) Statement I shows that, in 1995, UNOPS earned a total of $12,892,460 for implementing UNDP-funded projects. Schedule 1 shows that this amount consists of $2,924,573 earned on "old regime" projects, which are those approved before 1 July 1992; and $9,967,887 earned on "new regime" projects, which are those approved since 1 July 1992;

(ii) The income of $12,892,460 is net after having transferred $756,934 from the gross income of $13,649,394 ($711,597 was transferred to UNDP country offices and $45,337 to other United Nations agencies as compensation for services provided on behalf of UNOPS). The income of $13,258,043 shown in statement I for 1994 is also net, after having transferred a total of $457,240 from the gross income of $13,715,283 ($333,868 to UNDP country offices and $123,372 to other United Nations agencies);

(iii) Statement I also shows that, in 1995, UNOPS earned $1,234,768 and $5,251,227 for implementing projects funded by the United Nations International Drug Control Programme and UNDP-administered trust funds respectively. Support costs for these projects are calculated using rates approved by the Governing Council/Executive Board or by applying rates that are agreed with the funding source;

(iv) The income of $5,251,227 for UNDP-administered trust funds is net after having transferred $79,732 from the gross income of $5,330,959 ($47,424 was transferred to UNDP country offices and $32,308 to other United Nations agencies as compensation for services provided on behalf of UNOPS). The income of $4,351,811 shown in statement I for 1994 is also net, after having transferred a total of $79,908 from the gross income of $4,431,719 ($29,601 to UNDP country offices and $50,307 to other United Nations agencies);

(v) For 1996 and 1997, UNOPS will report support costs earned and reimbursement to UNDP country offices and other United Nations agencies gross in the financial statements.

(b) Management fees:

(i) UNOPS earns management fees for implementing projects under Management Service Agreements. The fees are agreed upon with the funding

sources. Statement I shows that, in 1995, UNOPS earned management fees totalling $5,829,663. This amount is net after having transferred $1,017,936, from gross income of $6,847,599 ($1,011,186 to UNDP country offices and $6,750 to other United Nations agencies as compensation for services provided on behalf of UNOPS);

(ii) The income of $5,964,036 shown in statement I for 1994 is also net, after having transferred $950,771 to UNDP country offices and $79,140 to other United Nations agencies from the gross income of $6,993,947. As noted under subparagraph (a) (v) above, in future both the income and transfers will be reported gross in the financial statements.

Note 3. IFAD - Loan administration and project supervision

UNOPS earns fees from services it provides to IFAD for loan administration and project supervision. UNOPS also earns support costs for procurement services it provides to projects that are implemented by Governments and financed with IFAD loans. Statement I shows that, in 1995, UNOPS earned a total of $3,068,710 from these activities.

The operating fund accounts maintained for IFAD activities are summarized below (in United States dollars):

	Loan administration and project supervision	Procurement services	Total
Opening balance	(256 153)	(1 404 177)	(1 660 330)
Add: funds received	(3 452 608)	(770 923)	(4 223 531)
Deduct: expenditures	844 565	1 254 017	2 098 582
Deduct: fees and support costs	2 979 896	88 814	3 068 710 (Statement I)
Closing balance: due from IFAD/(due to Governments)	115 700	(832 269)	(716 569) (Statement II)

Note 4. Interest income

The amount of $683,727 shown in statement I represents interest income earned on investments of the accumulated unspent income which, as shown in schedule 3, totalled $10,238,363 as at 1 January 1995. Being part of UNDP until 31 December 1994, UNOPS did not earn any interest income in prior years. Had UNOPS been a separate and identifiable entity as at 1 January 1994, its interest income in 1994, based on this year's return on investment, would have been approximately $0.6 million.

Note 5. Income from accounting services for the Programme of Assistance to the Palestinian People

UNOPS provides accounting and financial reporting services to the Programme of Assistance to the Palestinian People. Statement I shows that, in 1995, UNOPS earned $50,000 for providing these services. Project expenditures and income, reported by UNOPS to the Programme of Assistance to the Palestinian People in 1995, were $34,290,416 and $2,141,737 respectively.

Note 6. Cash

The amount of $2,474,974 shown in statement II represents balances of project imprest accounts advanced by UNDP and maintained by UNOPS at project sites. Except for a petty cash balance of $500, UNOPS does not handle any other cash directly. Funds from all sources for UNOPS-executed projects are paid to UNDP and UNOPS requests payment through UNDP headquarters treasury section or UNDP country offices.

Note 7. Operational reserve and investments of the operational reserve

The Executive Board, in its decision 95/1 of January 1995, decided "that the United Nations Office for Project Services operational reserve shall be initially established at a level equal to 20 per cent of the annual administrative budget of the United Nations Office for Project Services, rounded to the nearest hundred thousand dollars".

Pursuant to the above decision, the operational reserve was established with an initial level of $6,800,000, or 20 per cent of $34 million, which was the first annual administrative budget approved by the Executive Board for the biennium 1994-1995. The operational reserve is fully invested. The Executive Board shall revise the level of the operational reserve on the basis of recommendations from the Executive Director following the results of a study on UNOPS risks and potential liabilities, which is due for completion in 1996.

Note 8. Accounts receivable and deferred charges

The amount of $4,591,657 as shown in statement II consists of the following:

	United States dollars
Unprocessed inter-office vouchers	1 106 153
Unprocessed charges from executing agencies	1 486 422
Miscellaneous accounts receivable and other charges	1 999 082
	4 591 657

Note 9. Due from the United Nations International Drug Control Programme

As at 31 December 1995, UNOPS implemented a total of 64 projects funded by the United Nations International Drug Control Programme. The amount of $306,966, shown in statement II is the balance in the operating fund account with the Programme, which is summarized below:

	United States dollars
Balance as at 1 January 1995	3 600 733
Funds received by UNDP on behalf of UNOPS	(20 997 429)
Expenditures reported to the United Nations International Drug Control Programme (schedule 1)	17 703 662
Due from the United Nations International Drug Control Programme	306 966

Note 10. Due from UNDP

The amount of $5,170,453 as shown in statement II represents the inter-fund balance between UNDP and UNOPS. The amounts are due from UNDP mainly because, not being a separate agency, UNOPS relies on UNDP central services for the custody of its funds.

Note 11. Advances for IFAD-funded projects

The amount of $716,569, shown in statement II, is the net of $832,269, which is due to Governments for funds received in advance for projects funded by IFAD loans, and $115,700, which is due from IFAD for services related to loan administration and project supervision as explained in note 3.

Note 12. Accounts payable

The amount of $5,651,314 as shown in statement II consists of the following:

	United States dollars
Unliquidated obligations: United Nations International Drug Control Programme	2 756 130
Unliquidated obligations: projects funded by IFAD loans	790 056
Unliquidated obligations: UNOPS admin. budget	793 547
Miscellaneous accounts payable	1 311 581
	5 651 314

Note 13. Japanese Procurement Programme

In addition to the $63,067,511 shown in schedule 1 as having been delivered in 1995, 33 purchase orders, for a total of $21,834,428, affecting the Japanese Procurement Programme were issued in the first week of January 1996. Had these purchase orders been issued on or before 31 December 1995, when all the necessary work leading to their issuance (tender, evaluation, submission to Procurement Review Advisory Committee, approval of the award by the Chief Procurement Officer, etc.) had been completed, total project expenditures under the Japanese Procurement Programme would have been $84,901,939.